MORTGAGE BULLETIN

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IMPRESSIONS OF THE MORTGAGE CLIMATE

WITHIN the past year the business economy of the United States has undergone a salubrious change and as we near the end of the first quarter of 1950 we have a clearer view of the "Delectable Mountains." The business scene is bright and closer to normalcy than at any time during the past decade. Prices are showing evidence of some stability, business is good, building is very active, employment is at a high level and the probabilities of a recession seem remote. Businessmen, pundits and assorted Government soothsayers are in happy agreement that the trailways of business will follow a roadbed free from economic bumps for the balance of the year. However, the predictions of smooth traveling are so unanimous that skeptical eyebrows are raised. In fact, there is a notion that some of the bloom is back on the boom after the wilting spell of last spring, but none is labeling this prodigal a new business era. The reckless thinking of the roaring twenties has small place in the calculations of present-day business. "Proceed with caution" is still the guide-post on the business highway.

In January the President submitted to Congress his annual economic report prepared by Mr. Keyserling. Not all businessmen find themselves at home in the high altitudes maintained in this report. It is probably safe to assume that these earthy men are less concerned with high-sounding generalizations about the country's economic destiny under a hazy version of private enterprise, than they are in seeing practical steps taken to stop the use of red ink in the Government books. But the greatest obstacle to Government retrenchment is found in the economic philosophy of the President's truncated Economic Advisors that heavy expenditures are themselves an essential factor in developing dynamic progress and promoting the economic welfare of the people.

Of the record-smashing 1,019,000 nonfarm dwelling units started during the past year, 983,700 (96 per cent) were privately financed. Public housing accounted for the balance of 35,000. The Department of Commerce reports nonfarm mortgages of $20 thousand or under, recorded during the last six months of 1949, total more than $6 billion. The mortgage business is flourishing like the proverbial green bay tree as the result of the spectacular resurgence in housing construction which began early last fall and carried on through the winter months at an unprecedented pitch, and it gives every indication of continuing through the spring unabated. Real estate sales also have been inching up and this happy combination of activities supported by ample funds for financing is giving the big bang to mortgage lending.

The end of the year found most institutions financing home ownership with a gratifying expansion in their mortgage portfolios. The mutual savings banks held $6,479 million in mortgage loans, representing an increase of 17 per cent over

1948; savings and loan associations with holdings of $11,700 million had an increase of 13 per cent, and life insurance companies with holdings of $12,875 million, an increase of approximately 18 per cent. Following the pattern of past years, lenders made more conventional mortgage loans during 1949 than either insured or guaranteed loans. FHA had its banner year in 1949 with applications for loan insurance covering 783,000 dwelling units, an increase of 33 per cent over 1948. Dwelling units covered by insurance totaled 448,600, of which 70 per cent were new. The VA's gain in loans over 1948 was 1.6 per cent, but with FNMA providing a forced draft for loans to GI's, the last six months of the year showed a gain of 74 per cent over the same period in 1948. With FHA traveling under a full head of steam, the VA's loan activities speeding up, and Fanny May a dumping ground for mortgages which private lenders don't want to hold, Government aids will be even a greater factor in 1950 than they were in 1949.

It is becoming evident that banking institutions of all types are girding for the most strenuous rivalry for savings during 1950. In Massachusetts fifty-two savings banks have already broken away from the sacrosanct 2 per cent interest rate prevalent on savings deposits. Seventeen banks are now paying 2-1/2 per cent, twenty-five are paying 2-1/4 per cent, two are paying 3 per cent, while seven others have added an extra dividend of 1/4 per cent to their regular 2 per cent dividend. The National City Bank of New York, largest in the city, fired the opening gun in the race for the saver's dollar among the commercial banks by announcing that on February 1 it was increasing the interest rate from 1 per cent to 1-1/2 per cent on its compound interest accounts up to $2,500. Most New York savings banks advanced their interest rate to 2 per cent during 1949. Savings deposits furnish ammunition for mortgage investments and such investments enable an institution to treat its depositors well in the matter of interest payments. The chief avenue for increasing earnings open to savings institutions is to expand mortgage portfolios. Bond prices are high and yields low, therefore mortgages are the most attractive buy for the money, which causes institutional investors to bid avidly for them. Mr. August Ihlefeld, president of the Savings Banks Trust Company, owned by the New York savings banks, has advised: "Shifts out of long-term Government bonds are fully justified when alternative investments of good quality, giving considerably higher yields, are available. The one justifiable basis at this time for realizing capital gains by selling Governments is to reinvest the proceeds in sound real estate loans which give sufficient yield to compensate for the reduction of quality and liquidity that is involved."

The demand for insured mortgages is increasing and authorized mortgagees and mortgage brokers dealing in these mortgages are kept busy supplying an active market. Smaller banks are becoming more FHA minded as they recognize that in these uncertain times Federally insured mortgages provide a liquefying and relatively riskless investment for the long-term portfolio holder. The more banks hold in insured mortgages the less they chance holding frozen real estate in the next depression. A portfolio made up solely of the highest quality conventional loans does not necessarily provide the mortgage investment with the security inherent in FHA loans. However, while the principal losses in FHA's are negligible, investors cannot afford to disregard basic security or price if they do not want to find a block of assets earning 3-3/4 per cent changed quickly into callable Government debentures at 2-1/2 and 2-3/4 per cent. Premiums quoted in the New York Market for insured mortgages vary, according to Title class of the loan and the location of the property, from 1/2 a point in some States to 3-1/2 points in areas contiguous to

New York City, especially Northern New Jersey. The mortgage officer of a life insurance company just returned from Texas told us that one had to be a good trader, even in that land of mortgage plenty, to buy the right mortgage at the right price. . . . I dare say the same thing could be said of other States considered desirable investment territory.

Savings and loan associations have long been an important wellspring for home financing funds, and a significant announcement made the first of January by Morton Bodfish, chairman of the First Federal Savings and Loan Association of Chicago, may forecast a liberalized loan policy in home financing by savings and loan associations. Mr. Bodfish said the First Federal of Chicago had made a cut in interest rates and over-all financing expense of residential borrowings. The Chicago association offers straight 4 and 4-1/2 per cent financing on conventional loans (non-FHA loans) and is writing a complete pre-payment privilege into all home loan contracts as well as an "open end" clause in every mortgage. The "open end" or additional advance provision is a device whereby as the original loan is reduced by amortized payments, additional advances can be made to the borrower by adding such advances to the mortgage balance with the original amount of the loan as a maximum. Under this provision immediate access is had to the paid-up balance of the loan for repairs or to tide the borrower over any difficult period. It is another step in easy financing. While neither FHA nor VA has given approval of the "open end" mortgage, we understand that several States permit this loan pattern; the State of New Jersey has passed a law allowing savings and loan associations to do this type of financing. Another fact the mortgage industry cannot wink at is the 100 per cent increase (17,000 to 35,000) in high-cost public housing during the past year. . . Moreover, the estimate for this year is from 60,000 to 85,000 family units.

As we take off into the last half of the century, mortgage financing has become an exciting and highly competitive business. On every hand we are told of the increasing pressure for mortgages. The rivalry among institutional lenders in some densely populated areas has even been described as a regular Donnybrook Fair! The net effects of such a sharply competitive situation include liberal appraisals, less resistance to over-priced property, longer-term borrowing, less rapid reduction of debt, easier loan contracts and a tendency to inject an element of relaxation into the attitude of lenders. When the latter takes place, the risks become greater while the return from risk-taking diminishes.

Recently we have had an opportunity to look over the mortgage delinquencies of more than fifty banks spread over ten States. As would be expected at this time, the figures are low but the trend is significant as it is rising, though slowly. The urge to buy a home on easy credit terms has spurred on too many people to borrow too much money and assume commitments which may prove beyond their means. Drawing on past experience there is ample reason to fear that when deflation strikes, the aftermath of defaults and foreclosures will fall heavily on the shoulders of many mortgagors. Quite a number of banks have made provision for this contingency by establishing a general mortgage reserve account. The goal for a reserve and the per cent of gross income yield set aside each year to achieve it has largely been determined from past experience. But with amortized loans and insured and guaranteed mortgages making up the portfolios, reserves predicated on past experience may be greater than the need. An improved method of estimating the amount of reserves required to offset probable future losses has been developed during the past year, and we shall be glad to tell you about it if you will write us.

The fracas and fury going on in Congress over housing legislation has a profound bearing on the mortgage business. Perhaps as much as $600 million in projected rental housing goes by the boards as Section 608 expires. Apartments for 75,000 families will be scuttled unless a new way of financing is worked out. It is also quite certain that the Federal National Mortgage Association is sailing into heavy seas and strong headwinds. FNMA owns $829 million in mortgages, has contracted for $890 million more, and is paying out $30 million a week in GI loans. At the moment Fanny May is under a cold and critical eye in Washington. It has been authentically reported by the Mortgage Bankers Association that the Administration is coming up with a plan creating a private agency to take over the functions of FNMA to provide a nation-wide market for mortgages. While full details of the Government plan are not yet known, action appears in sight to relieve the Federal Government of the "great burden it is now carrying in making a market for mortgages."

The Maybank amendment to the so-called "middle income" housing bill received a severe jolt when Senator Fulbright pinned down Mr. McCabe, chairman of the Federal Reserve Board, to an admission that the Board was opposed to the bill in its existing form. Then on February 23 the full Senate committee overruled its subcommittee by knocking out the proposed Federal subsidy. We believe this bill should be rejected in its entirety. However, it is incongruous for the mortgage fraternity to oppose direct Government lending when they are constantly plying FNMA with GI mortgages. The current FNMA market is nothing more than a direct loan by the Federal Government. The burgeoning antipathy of Congress towards it is based on its repeated requests for ever greater authorizations and its use as a pipeline rather than a distress outlet for home mortgages. But it is hard to see how mortgage lenders can expect anything in the way of sound housing legislation to come out of Congress when home financing problems are more of a mystery to the average Congressman than the inner reaches of medieval theology. For a long time ahead, political forces will cast a shadow athwart the field of mortgage lending. And remember, in political Washington, that strange land of "high brass" and ten million miles of red tape, the decision is often made before the negotiation is begun.

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